

## GLOBALIZATION AND THE RISE OF MULTINATIONAL CORPORATIONS

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### Abstract

*Doing business around the world for multinational companies has implications for marketing to and communicating with consumers in different countries. Of course, the issue of culture has long been a factor. “Communication and culture are inseparable”. This has not been lost on those who are involved in international business, in which communicating to business partners, clients and potential customers can be a complicated task. The digital revolution has truly changed the way the world does business. It allows companies to provide customized service to consumers, by actually enabling their customers to “serve themselves in their own way...according to their own tastes”. There are companies who provide the infrastructure and hardware for this new technology, but there are also those companies that thrive on the very bonds that the Internet creates with every other part of the world. Examples include search engines like Google and Yahoo, auction sites like eBay, and networking sites like MySpace, whose products can include intangible things like knowledge or friendship. These companies too are taking advantage of global markets, as eBay now receives fifty-one percent of its revenue from outside the U.S., while seventy-five percent of Google’s page views occur in other countries.*

Keywords: *globalization, multinational companies, Internet, digital revolution*

### 1. Introduction

Even before the Dutch sailed to the East Indies or Marco Polo traveled to China, people have been interacting with other cultures in numerous ways, many of them for economic reasons. One would imagine it was quite difficult initially for these people to communicate and do business with each other, but even today obstacles in international business still exist. Although our world has certainly become much smaller in the last several centuries, cultural and geographical contexts still play a large part in shaping different societies and their methods of interaction with others. The term “globalization” is one heard of quite often in today’s world, particularly in economic terms, referring to the expansion of free market capitalism. There are many other

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aspects that fit into the globalization process, ranging from political to social to technological, that are a part of this increasing interconnectivity of people around the world. Thomas Friedman, journalist for The New York Times and a popular scholar of globalization, breaks it down simply into three main time periods. The first of these began with the exploration of the New World followed by the development of the nation-state, as business between different parts of the world was organized and determined by the strength of entire countries. Friedman (2005) describes this period of time as “Globalization ” when the units of interaction were primarily these countries. More recently, following the industrial revolution and innovations in transportation and communication, the units of international interaction became multinational corporations who were finding materials, labor, as well as clients in countries outside their own. Friedman calls this period “Globalization”. This has been the period most familiar to people today, although in just the last several years, we have entered “Globalization” where interaction across nations can exist at the individual level and occur instantaneously (this will be addressed later). There are two types of theories on the effect that globalization has had on the world. The first is that of convergence, in which some degree of “universalization and homogeneity” results, as the differences that do exist are overshadowed by the similarities that are growing among countries. This is countered by the idea of divergence, which represents a drive to retain the unique qualities of individual cultures in the face of a globalized world. It would seem that although many similarities exist throughout the world, thanks to new technology as well as the spread of American culture, it would be naïve or perhaps even arrogant to believe that the world’s population is becoming truly homogenous. McLuhan’s “global village” idea means we are all in contact with one another, essentially neighbors, but it has certainly not meant that we have become fundamentally alike. Instead, globalization has “promoted diversity in interests, demands and values” (Sparks-Fitzgerald & Spagnolia, 1999). In the case of multinational companies doing business around the world, this certainly has implications for marketing to and communicating with consumers in different countries. Of course, the issue of culture has long been a factor. As communication scholar Alfred G. Smith proclaimed, “communication and culture are inseparable” (as quoted in Zaharna, 2000), since the way we as human beings communicate is inherently tied to the culture in which we were raised. This has not been lost on those who are involved in international business, in which communicating to business partners, clients and potential customers can be a complicated task. This seems to be especially true for American companies, who tend to assume that their business models, which are highly successful in the U.S., will be equally successful when transferred to another country. Cushman and King, however, suggest that “cultural settings not only determine much of behavior, but also require varying avenues for success within the diverse environments” (as cited in Packman & Casmir, 1999). Thus, due to cultural differences, one cannot take for granted that practices in one country will bring about the same results in another.

## **2. Looking ahead**

We suggest some trends that exist now and will persist in the future in the field of international business communication. There is no doubt that everything done in the world today can be viewed in a larger global context, and this is particularly true for business activities. Harris Diamond, CEO of the international public relations firm Weber Shandwick, suggests that “companies need to make their brands relevant in ways that are faithful to the core attributes of the brand, yet flexible enough to accommodate diverse trading patterns, differing consumer tastes and behavior, and a variety of businesses, media and political cultures”. As this paper will demonstrate, a thorough understanding of this global context and a willingness to embrace change are essential for the continued success of any organization operating in today’s world. Having seen examples from the past of failures in international business communication, we now turn toward the future to examine what one can reasonably expect to encounter from a globalized world. There are two major trends that are already ever-present in today’s world and only stand to increase in the next few decades. The first is the move toward digitalization, with the Internet becoming the new medium of choice. Secondly, we are seeing a rise of activity from developing economies, as they strive not only to join but also succeed in the global market.

## **3. The future lies in the internet**

We have now entered the era that Thomas Friedman calls “Globalization 3.0,” where “thanks to digitization, miniaturization, virtualization, personalization, and wireless, [anyone] can be processing, collecting, or transmitting voice or data from anywhere to anywhere” (2005). The digital revolution has truly changed the way the world does business. In the beginning, companies set up websites, which gradually became more extensive and elaborate and allowed users from all over the world to buy products and services online. Furthermore, the Internet has allowed these companies to control and track every aspect of their business with the click of a mouse. The most adept of these companies have realized that this allows them to provide customized service to consumers, by actually enabling their customers to “serve themselves in their own way...according to their own tastes” (for a simple example, think of Dell computers), creating what Friedman (2005) calls the “self-directed consumer”. Companies are thus able to meet the needs of their clients, as well as their own needs, in ways never before thought possible. In addition to these uses by more traditional organizations, a number of businesses have sprung up as a direct result of the digitalization of the world to offer services that would also be unthinkable otherwise. There are those who provide the infrastructure and hardware for this new technology, but there are also those companies that thrive on the very bonds that the Internet creates with every other part of the world. Examples include search engines like Google and Yahoo, auction sites like eBay, and networking sites like MySpace, whose products can

include intangible things like knowledge or friendship (Battelle, 2005). These companies too are taking advantage of global markets, as eBay now receives fifty-one percent of its revenue from outside the U.S., while seventy-five percent of Google's page views occur in other countries (Hof, 2006). In terms of communication, this age of digitalization is an unbelievable boon, particularly for business corporations. First off, the Internet allows "unfiltered positions" to be heard by bypassing the traditional agenda setting conducted by media gatekeepers (Sparks-Fitzgerald & Spagnolia, 1999). In addition, the two-way flow of communication it offers allows for significant feedback, often almost instantaneously, as is the case with blogs and discussion boards. This speed of the Internet is also greatly beneficial to corporations, particularly in the case of a crisis, as it allows quicker reaction times as well as wide dissemination of information (Sparks-Fitzgerald & Spagnolia, 1999). At the same time, however, this also opens up access to new users from completely different cultures whose needs may need to be addressed, as with any company doing business outside of its home market.

#### **4. The future lies in markets of growing economies**

In the last decade of the twentieth century, several parts of the world were making the transition from a closed economy to a free market system, such as China, India, Russia, and Eastern Europe. By 2000, the "global economic world," the amount of the world's population participating in global trade, reached six billion people, compared to 2.5 billion in 1985. As it happened, this coincided with the digital revolution that was "flattening" the world, thus not only leveling the playing field, but also bringing that field directly to these new players (Friedman, 2005). The one country that seems as if it will have the greatest effect on the world's future is the most populous nation, China. Like many of these new economies, China is experiencing an "emerging capitalist class," one that possesses an ambitious and positive attitude toward the future (O'Leary). This is still a small segment of Chinese society, concentrated in major cities like Shanghai and Beijing, which are in the first tier of China's four-tier economic classification system. The main growth in consumption in the long run will actually come from those in the lower tiers as they undergo a rapid urbanization and industrialization as China prepares to create a multitude of new landmark cities in the next few decades (O'Leary). As a nation with a strong history of innovation and prominence, China seems to be exhibiting "ambitions to catch up to its rightful place in modern consumer society" (O'Leary, 2007), and there are many indicators of the takeoff of middle class consumer spending. Credit card ownership is at twelve million compared to three million two years ago; meanwhile, 4.1 million of China's 100 million cars were sold in 2006. Another important consideration is that this is the generation of "Little Emperors," the single children born out of Mao's population control policies, who have been raised "with a sense of consumer entitlement" (O'Leary). Chinese consumers are particularly attracted to luxury items, considering them to be marks of status, especially in a country where the idea of "face" is very

important. Goldman Sachs has reported that China will pass Japan as the largest luxury market in 2015, with a twenty-nine percent share (O'Leary). However, there is still a demand for "culturally relevant products" (Fowler & Marr, 2005). Thus the reason for the trend toward conducting research and development in China itself, as Proctor & Gamble has done through an affiliation with the prestigious Tsinghua University in Beijing, while L'Oreal has set up its own R&D facility in Shanghai to focus solely on the Chinese consumer (O'Leary). China's budding consumers are also merging with the Internet, which is enabling them to do a wide variety of things with an even wider amount of information. The Internet has certainly contributed to the growing capitalism among the Chinese, as \$36 billion was spent online in 2006 (O'Leary). Furthermore, it has a great democratizing power in a still authoritarian nation; Google's Kai-Fu Lee, head of Chinese operations, predicts that the Internet will "level the playing field for China's enormous rural underclass" (Thompson, 2006), particularly for students, who can access educational materials from around the globe. Chinese Internet use grew by twenty three percent in 2006 to 137 million users, which is 10.5 percent of the population, and it is predicted to surpass the U.S. in the next two years to become the largest Internet market in the world (O'Leary). Many Chinese also believe that the Internet will change Chinese politics, making the process more transparent (Schrage, 2006). According to Kai-Fu Lee, however, the Internet's ability for public speech appeals more on the level of personal expression rather than political expression (Thompson, 2006). Although there may be a growing sense of individualism, it is a "peer-endorsed individualism," tying back to that concept of "face" (O'Leary, 2007). Even with politics aside, the Internet revolution in China can at least be described as one of "self-actualization," with the new ability to speak publicly about a variety of topics becoming part of a "daily act" (Thompson, 2006). China certainly presents a very complex case, however, for any corporation that desires to do business with it, as it is considered to have as many as 31 different markets (Chang, 2007), although these are also spending more than \$700 billion (O'Leary, 2007). China's authoritarian structure also poses a moral quandary for many firms, but the country's economic stature and promise usually leave little choice, even for a company like Google whose motto is "Don't be evil."

## **5. Conclusions**

No matter how strong a corporation is, however, if it does not understand the basics of intercultural communication or chooses to ignore them, it can find itself in serious trouble when things go awry and it needs to inform and reassure its various publics. For instance, Google has reached worldwide recognition in a remarkably short timeframe, and the technological nature of its products and services has not left much of a national stamp upon it. Indeed, it is committed to innovation, which should give it great flexibility as it continues to expand in new markets.

As a final note, although globalization may be bringing about a divergence effect, cultures will be just as imprudent as businesses if they refuse to allow their interactions on the world stage to bring about a modicum of change. As the digital age continues to advance, and nascent economies join in with the rest of the world, that world will only shrink further. Great will be those companies that take advantage of this, who are flexible enough to appeal to the various markets now just a mouse click away. Even greater still, however, will be those companies that reflect the needs and values of these markets' individual cultures, not simply existing alongside them, but finding ways to merge with and become a part of them.

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